



AUTO INSURANCE AND ECONOMIC MOBILITY IN MICHIGAN: A CYCLE OF POVERTY

MARCH 2019

By Patrick Cooney, Elizabeth Phillips, and Joshua Rivera

Michigan has the most expensive automobile insurance in the United States, with an estimated annual premium of \$2,610, almost double the national average.¹ This burden, however, does not fall equally. With an average annual premium of \$5,414, Detroiters face the most expensive car insurance rates in the country,² and other low-income Michigan communities are subject to extreme rates as well. In turn, a large proportion of Michigan residents drive uninsured, leaving themselves and others open to financial risk, especially in lower-income communities.³ Altogether, this means that the cost of auto insurance has become a major barrier to mobility from poverty in Detroit and across the state.

This brief discusses the link between economic mobility and transportation, and examines the disproportionate impact of extreme car insurance prices on low-income Michiganders. It explores why coverage is so expensive here, and offers two goals for reform: 1) to reduce the cost of auto insurance across the state, and 2) to narrow the gap between what Michigan's wealthiest and poorest residents pay. Both goals are critical for the state to end a cycle of poverty that puts Michigan as a whole, and particularly low-income residents, at a competitive disadvantage.

TRANSPORTATION AND ECONOMIC MOBILITY

Transportation is vitally important to economic mobility.⁴ Whether to get to a new job, go back to school, or make it to a doctor's appointment, reliable and affordable transportation can make the difference in moving up the economic ladder. In Detroit, public transportation is under-resourced,⁵ and many entry-level job opportunities are located in the surrounding suburbs,⁶ which are largely inaccessible by public transportation. Thus, reliable access to transportation in Detroit often means reliable access to a car.

Yet, the price of auto insurance creates a huge barrier to automobile ownership in Michigan, and in Detroit in particular. The U.S. Treasury Department's Federal Insurance Office deems auto insurance "unaffordable" in areas where premiums exceed 2 percent of a ZIP code's median household income.⁷ This standard can be applied to recent data from The Zebra, a premiere auto insurance comparison marketplace. The Zebra collects rate information from public rate filings and insurance rating platforms. In total, the data provides an average rate per ZIP code for a "base profile" insured driver.⁸ This exercise yields car insurance rates that represent more than 2 percent of median household income in 97 percent of all Michigan ZIP

1 The State of Auto Insurance 2019 | The Zebra. [2018]. Retrieved from <http://www.thezebra.com/state-of-insurance/auto/2018/>

2 Livengood, C. [2017, October 22]. How Michigan's auto insurance premiums became the highest in the country. Retrieved from <http://www.crainsdetroit.com/article/20171022/news/642726/how-michigans-auto-insurance-premiums-became-the-highest-in-the-country>; Coffey, M. [2017, September 28]. What's Wrong with Michigan's No-Fault Automobile Insurance. Retrieved from <https://www.mackinac.org/archives/2017/s2017-07.pdf>

3 U.S. Treasury Federal Insurance Office. [2017, January]. Study on the Affordability of Personal Automobile Insurance. Retrieved from https://www.treasury.gov/initiatives/fio/reports-and-notice/Documents/FINAL_Auto_Affordability_Study_web.pdf

4 Bouchard, M. [2015, May 07]. Transportation Emerges as Crucial to Escaping Poverty. Retrieved from <https://www.nytimes.com/2015/05/07/upshot/transportation-emerges-as-crucial-to-escaping-poverty.html>

5 Kiertzner, J. [2018, January 18]. Amazon cut Detroit over regional transportation. Retrieved from <https://www.wxyz.com/news/region/detroit/detroit-leaders-told-by-amazon-regional-transportation-is-why-we-didnt-make-the-cut>

6 Coxen, T., Falby, J., La Prad, J., MacFarlane, T., & Sherard-Freeman, N. [2016]. DETROIT'S UNTAPPED TALENT: JOBS AND ON-RAMPS NEEDED. Retrieved from <http://skilledwork.org/wp-content/uploads/2016/01/CSW-Detroit-Mapping-FINAL-APPROVED.pdf>

7 U.S. Treasury Federal Insurance Office. [2017, January]. Study on the Affordability of Personal Automobile Insurance. Retrieved from https://www.treasury.gov/initiatives/fio/reports-and-notice/Documents/FINAL_Auto_Affordability_Study_web.pdf

8 The Zebra's method involves using a base profile for an insured driver to collect information on rates. According to the Zebra, that profile is, "...a 30-year-old single male driving a 2013 Honda Accord EX with a good driving history and coverage limits of \$50,000 bodily injury liability per person/\$100,000 bodily injury liability per accident/\$50,000 property damage liability per accident with a \$500 deductible for comprehensive and collision".

codes. In Detroit, average rates represent between 12 and 36 percent of residents' pre-tax income in nearly every ZIP code. By comparison, the Department of Housing and Urban Development considers housing costs to be unaffordable if they surpass 30 percent of income.

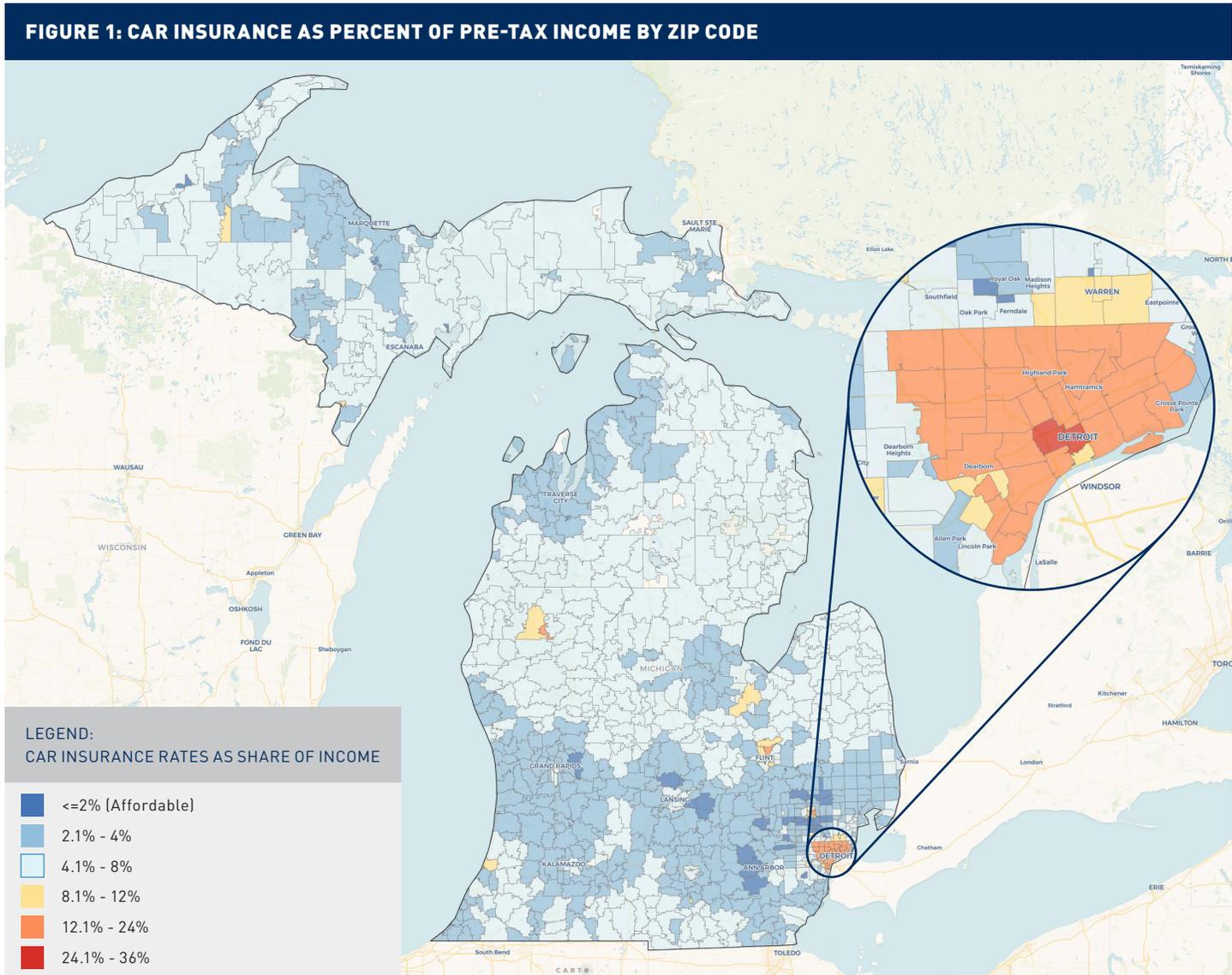
As shown in Figure 1, the vast majority of Michigan communities are also above the 2 percent affordability threshold, yet the burden is substantially greater for low-income communities:

- Royal Oak, Farmington Hills, and Livonia face rates above the affordability threshold, but these range from 2.1 to 4 percent of area median household income.

- In Pontiac and Flint, in contrast, rates vary between 8 and 24 percent of median income.
- Saginaw and Ypsilanti's rates are 4 to 12 percent of the area's median household income.

The only affordable ZIP Codes in Michigan are in more affluent communities:

- In Southeast Michigan, Dexter, Birmingham, Bloomfield Hills, and parts of Ann Arbor face affordable rates, in part, due to higher household incomes in those area.
- Williamston and DeWitt, two cities outside of Lansing, meet the affordability threshold.



Another lens by which to view affordability is to compare the cost of auto insurance in Detroit to what is experienced in other cities. As shown in Table 1, for the typical Detroit household making \$30,344 a year, car insurance can eat up 18 percent of annual income. For the 34.5 percent of Detroiters at or below the poverty level, the picture is even starker. A family of four with an income right at the poverty level (\$24,600 in 2017) would pay an estimated 22 percent of their total annual income toward car insurance. In contrast, car insurance accounts for between just 2 to 4 percent of pre-tax income in peer cities⁹ such as Cleveland, St. Louis, and Chicago, as well as higher income cities such as Seattle and Boston.

Unaffordable insurance may force low- and moderate-income individuals to forgo driving, limiting their ability to get to school, health care appointments, or jobs that are often outside the city limits. Recent findings from a representative survey of Detroiters finds that 34 percent don't own a car, and nearly a quarter report having recently missed work or an appointment due to lack of transportation.¹⁰

Others may respond to extreme insurance rates by driving uninsured, for instance thinking that getting to a job merits the risk. Nationally, an estimated 13 percent of drivers are uninsured. In Michigan, the corresponding rate is 20 percent, 4th highest in the country. In Detroit, the estimate is closer to 60 percent, more than four times higher than the national average.¹¹ Those caught driving without insurance risk a misdemeanor charge punishable by up to one year in jail and a fine of \$200-\$500.¹² Even further, until recently Michigan had strict "driver responsibility fees," through which 317,000 Michiganders and 70,000 Detroiters had their driver's licenses suspended, often as result of driving uninsured.

WHY IS AUTO INSURANCE SO EXPENSIVE IN MICHIGAN?

Michigan's particular mix of insurance policies, together with lax regulations, combine to drive up the cost of auto insurance for Michiganders, with low-income residents hit the hardest. The most frequently cited reason for Michigan's high rates is the

TABLE 1: AVERAGE ANNUAL PREMIUMS AS A PERCENT OF MEDIAN HOUSEHOLD INCOME

PLACE	AVERAGE CAR INSURANCE PREMIUM	MEDIAN HOUSEHOLD INCOME	CAR INSURANCE AS PERCENT OF PRE-TAX INCOME
Detroit	\$5,414	\$30,344	18%
Cleveland	\$1,277	\$28,974	4%
Dallas	\$2,123	\$50,627	4%
St. Louis	\$1,390	\$41,441	3%
Pittsburgh	\$1,440	\$45,851	3%
Atlanta	\$1,616	\$57,597	3%
Chicago	\$1,472	\$55,295	3%
Minneapolis	\$1,613	\$60,789	3%
National	\$1,427	\$60,336	2%
Boston	\$1,497	\$66,758	2%
Seattle	\$1,345	\$86,822	2%

Source: The Zebra, the State of Auto Insurance 2018; U.S. Census Bureau, 2017 American Community Survey 1-Year Estimates

state's unique form of no-fault insurance, with unlimited Personal Injury Protection (PIP).¹³ Michigan is one of 12 states with a no-fault insurance system, whereby a driver's own insurance company pays for damages from an accident, no matter who is at fault. Importantly, though, Michigan is the only state that requires drivers to purchase unlimited PIP coverage (Table 2). This means that in the event of an accident, automobile insurers are on the hook for unlimited medical damages, which drives up the costs of insurance for everyone. While the cost of these benefits only made up 6 percent of premiums in 1972, they currently account for 42 percent of average premiums.¹⁴

9 Peer cities selected for comparison are borrowed from the Detroit Regional Chamber's list of national peer cities used in the State of the Region 2018-2019 report; Detroit Regional Chamber. (2018). State of the Region 2018-2019. Retrieved from www.detroitchamber.com

10 Detroit Metro area Communities Study (2017) Detroiters' Views on Transportation and Mobility. Retrieved from <https://poverty.umich.edu/files/2018/05/W2-Transportation-F.pdf>

11 Insurance Information Institute (n.d). Facts Statistics: Uninsured motorists. Retrieved from <https://www.iii.org/fact-statistic/facts-statistics-uninsured-motorists>; Reindl, J. (2017, May 08). How aggressive lawyers, costly lawsuits and runaway medical bills make Detroit car insurance unaffordable. Retrieved from <http://www.freep.com/story/news/local/michigan/detroit/2017/05/06/no-fault-auto-insurance-detroit-michigan/100326640/>

12 Waterman, C. (2015, April 03). Driving without insurance? Police in Michigan can now tell just by running your plate. Retrieved from https://www.mlive.com/news/bay-city/index.ssf/2015/03/driving_without_insurance_poli.html

13 Ibid.; Heaton, P. (2010, January 01). Auto Insurance Reform in Michigan: What Can the Data Tell Us? Retrieved from http://www.rand.org/pubs/occasional_papers/OP293.html

14 Oosting, J. (2019, February 14). Duggan to lawmakers: Michigan auto insurance system 'morally indefensible'. Retrieved from <https://www.detroitnews.com/story/news/local/michigan/2019/02/13/duggan-lawmakers-michigan-auto-insurance-law-morally-indefensible/2858343002/>

In addition, Michigan does not impose medical fee schedules,¹⁵ meaning that hospitals can charge auto insurers more than they can charge health insurers. This leads no-fault insurers in Michigan to be charged significantly more than Medicare, Workers Comp, or private insurers for the exact same medical procedures.¹⁶

Together, this means that the average cost per claim is dramatically higher in Michigan than in other states. In 2013, the

average cost per auto accident claim in Michigan was over \$75,000—more than *five times the figure in the next highest state*. New Jersey, also a no-fault state, was the next highest with an average cost of \$13,600.¹⁷ As one might expect, with unlimited protection and no regulations on medical fees, the system is a prime target for personal injury attorneys, with PIP-related first-party lawsuits now making up two thirds of all lawsuits in the state.¹⁸ Large settlements resulting from these suits contribute to Michigan’s high auto insurance rates.¹⁹

TABLE 2: MINIMUM CAR INSURANCE COVERAGE REQUIREMENTS IN NO-FAULT STATES²⁰

STATE	PERSONAL INJURY PROTECTION (PIP)	PROPERTY DAMAGE (PD)	BODILY INJURY (BI)	UNINSURED MOTORIST (UM)	FRAUD AUTHORITY?	MEDICAL FEE SCHEDULE?	PROHIBITED RATING FACTORS?	AVERAGE PREMIUM
MI	Unlimited, Lifetime	\$10K	\$20K/40K	Optional	Yes	No	No	\$2,610
FL	\$10K	\$10K	Optional	Optional	Yes	Yes	No	\$1,878
NY	\$50K	\$10K	\$25K/50K	\$25K/\$50K	Yes	Yes	Yes	\$1,582
HI	\$10K	\$10K	\$20K/40K	Optional	Yes	Yes	Yes	\$1,079
KS	\$4,500/person	\$25K	\$25K/50K	\$25K/\$50K	Yes	No	No	\$1,427
KY	\$10K*	\$25K	\$25K/50K	Optional	Yes	Yes	No	\$2,050
MA	\$8K/	\$5K	\$20K/40K	\$20K/\$40K	Yes	No	Yes	\$1,201
MN	\$40K/	\$10K	\$30K/60K	\$25K/\$50K	Yes	No	Yes	\$1,258
NJ	\$15K, \$250K	\$5K	\$15K/30K	Optional	Yes	Yes	No	\$1,679
PA	\$5K*	\$5K	\$15K/30K	Optional	Yes	Yes	No	\$1,433
UT	\$3K	\$15K	\$25K/65K	Optional	Yes	Yes	No	\$1,112
ND	\$30K	\$25K	\$25K/50K	\$25K/\$50K	Yes	No	No	\$1,230

* In addition, the Zebra report notes the following, “*Kansas requires \$4,500 each for medical and rehabilitation. *Kentucky and Pennsylvania are “no-fault choice” states, where drivers can opt for full-tort car insurance. *New Jersey’s \$250,000 medical minimum applies only to specific serious injuries. PIP “Add-on” States: Arkansas, Delaware, Washington D.C., Maryland, Oregon, South Dakota, Texas, Wisconsin, South Carolina, Washington”.

Source: reprinted from Why Michigan Is in the Middle of a Car Insurance Crisis—and What Can Be Done by The Zebra retrieved from www.thezebra.com

15 Insurance Information Institute, February 3, 2014. “Background on: No-fault auto insurance”
 16 Mosley, R. C., Jr. (2015, June 8). D-Insurance: City of Detroit Insurance Company Feasibility Study. Retrieved from www.detroitmi.gov
 17 Ibid.
 18 Reindl, J. (2017, May 07). No-fault car insurance in Michigan: Here’s how it works. Retrieved from <https://www.freep.com/story/news/local/michigan/detroit/2017/05/06/no-fault-car-insurance-michigan-heres-how-works/100668458/>; Reindl, J. (2017, May 08). How Michigan got - and kept - no-fault auto insurance. Retrieved from <https://www.freep.com/story/news/local/michigan/2017/05/06/michigan-nofault-insurance-history-detroit/100301828/>; Reindl, J. (2017, May 07). Detroit car insurance: 6 other factors behind the cost of auto insurance. Retrieved from <https://www.freep.com/story/news/local/michigan/2017/05/06/detroit-car-insurance-cost/100992680/>
 19 Casazza, C. (2017, July 07). Is It Time to Do Away with No-Fault Laws? Retrieved from <http://www.forbes.com/sites/ccasazza/2017/07/07/is-it-time-to-do-away-with-no-fault-laws/#5d8df30dbb66>
 20 Why Michigan Is in the Middle of a Car Insurance Crisis - and What Can Be Done. (2018, October). Retrieved from <https://www.thezebra.com/research/michigan-car-insurance-crisis/#unlimited-medical-coverage>

WHY ARE RATES SO HIGH IN DETROIT?

As started earlier, the average price of an auto policy in Detroit is \$5,414, eating up 18 percent of the median household income of Detroiters.²¹ One reason Detroit rates are higher as compared with the rest of the state is the volume and size of PIP claims in the city. These high levels of PIP claims are driven in part by the relative lack of private health insurance in Detroit. No-fault benefits are tapped before Medicare or Medicaid by law, so PIP benefits are called upon more frequently in places where public insurance coverage is more common, and private coverage is less so. This means that PIP is more likely to be called on to address damages than in other parts of the state. Not only are there far more PIP claims in Detroit than in the surrounding suburbs, but PIP claims are for almost double the amount (\$59,000 on average, compared to \$30,000).²² This then drives up insurance premiums in the city.

Another reason for Detroit's highest-in-the-nation rates is that insurance companies use non-driving characteristics to set premiums for customers.

This includes factors such as marital status, educational attainment, home ownership status, and credit scores. Because these factors are not directly related to one's driving record—yet are highly correlated with income—critics have argued that their use in setting premiums amounts to insurance “redlining”, with the same policy costing thousands of dollars more in the city limits of Detroit than it does just a few miles outside it. Of these factors, credit scores are by far the biggest cost driver, with rates more than doubling for those with poor versus excellent credit.²³ This is a big problem for Detroit residents, who collectively have some of the lowest credit scores in the country.²⁴ Thus, a single mother in Detroit with a perfect driving record but bad credit could be charged one of the highest auto insurance premiums of any person in the entire country, despite never having been cited for a traffic violation or having been a part of a traffic accident.

WHAT CAN WE DO?

Addressing the extreme costs of auto insurance—and removing a major barrier to mobility from poverty for low-income residents in Detroit and across the state—will require compromise, sacrifice, and collective action by numerous stakeholders. Hundreds of bills have been introduced in the State Legislature over the past ten to fifteen years to address the issue, but so far, little agreement has been reached. Some proposals focus on redlining, targeting the way in which insurers use non-driving factors in setting premiums. These proposals would reduce the extent to which premiums vary within the state, but would not necessarily lower premiums across the state. Others focus on reining in PIP payouts, and in doing so reducing premiums statewide, but perhaps leaving in place significant geographical variation. In order to control rates and achieve buy-in from all stakeholders, both factors must be addressed.

REINING IN PIP PAYOUTS

A clear way to reduce rates would be to rein in PIP payouts. This could be done by:

- **REPLACING MANDATORY UNLIMITED LIFETIME PIP COVERAGE WITH A BROADER MENU OF COVERAGE OPTIONS.** Michigan is the only state in the U.S. that requires drivers to purchase unlimited PIP coverage.^{25 26} Doing away with mandatory unlimited lifetime coverage—and allowing consumers to select the coverage that best fits their needs as is done in other insurance markets—is the clearest way to reduce rates across the state, including in Detroit. Doing so is critical to reducing costs, but is likely to face significant opposition from interest groups that would be hurt financially by this change.
- **IMPOSE FEE SCHEDULES.** Michigan does not use fee schedules for medical care, creating numerous perverse incentives for stakeholders in the system. Several recent bills have included proposals to variously cap PIP fees at

21 Ibid.

22 Ibid.

23 THE SECRET SCORE BEHIND YOUR RATES. [n.d.]. Retrieved from <http://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm#creditmap>; Study: Poor Credit Can Double Auto Insurance Rates. [n.d.]. Retrieved from <http://www.insurancequotes.com/auto/study-how-poor-credit-double-auto-insurance-rates-82218>;

24 Dudley, D. (2016, October 17). Detroit Is America's Capital of Bad Credit. Retrieved from <https://www.citylab.com/life/2016/10/detroit-is-americas-capital-of-bad-credit/504137/>; Ludwig, S. (2015, October 13). Credit scores in America perpetuate racial injustice. Here's how | Sarah Ludwig. Retrieved from <https://www.theguardian.com/commentisfree/2015/oct/13/your-credit-score-is-racist-heres-why>; Darity, W., Jr., Hamilton, D., Paul, M., Aja, A., Price, A., Moore, A., & Chiopris, C. (2018). What We Get Wrong About Closing the Racial Wealth Gap. Retrieved from socialequity.duke.edu

25 Reindl, J. (2017, May 09). No-fault fixes? How other states reined in auto insurance costs. Retrieved from <http://www.freep.com/story/news/local/michigan/2017/05/08/how-can-auto-insurance-detroit-affordable/100018602/>

26 Other no-fault states have mandatory minimum PIP purchase requirements ranging from \$3,000 in Utah to \$50,000 in New York.

anywhere from 100% to 160% of the Medicare rate (130% is the standard Michigan uses for Workers Compensation).²⁷ Doing so would immediately reduce costs associated with the system.

- **LIMIT CLAIM TIME.** Under current law, accident victims in Michigan can initiate treatment during a one-year window. Reducing this window (as other states have done) could reduce fraud and the number of lawsuits associated with PIP claims.

REFORM RATE SETTING PRACTICES

A few states explicitly restrict the use of credit scores or other non-driving factors in setting rates. Their use is commonly raised as a concern by consumer advocates and residents of low-income neighborhoods who argue that racism and redlining contribute to unreasonably high rates that are not justified by the cost of insuring.

Prohibiting the use of all factors unrelated to a purchaser's driving record is difficult: insurance companies must be able to develop actuarially sound models. But other states have struck compromises on this. California, for example, has established reasonable rate-setting guidelines, where insurance companies are required to prioritize three factors: driving record, annual miles driven, and years of driving experience. After these have been taken into account, several other (optional) factors may be added, such as marital status, frequency of claims, age, and address. However together these cannot

carry more weight than the first three.²⁸ The use of credit score is not permitted.²⁹ Based on a study by the Consumer Federation of America, low-income drivers in U.S. cities pay 59 percent more for auto insurance than those with higher incomes. In Los Angeles, this gap is just 9 percent, likely due to the regulations that California places on insurers.³⁰

MOVING FORWARD

The sides of this debate are well drawn. Medical providers, trial lawyers, and patient advocates have fought all efforts to reduce PIP payouts. Those representing high-poverty areas of the state have resisted reforms that fail to address the use of non-driving related factors in setting insurance rates. Insurers push back against efforts to restrict the use of non-driving factors, arguing that they need this information to create actuarially sound models.

Important to this conversation is the fact that not all Michigan residents are impacted by this problem equally. To the extent that higher income residents feel pinched by the cost of auto insurance, the challenges faced by low-income Michiganders and residents of Detroit in particular are much worse. Given this, any solution to the car insurance quagmire should seek to both: 1) reduce rates and 2) narrow the gap between what Michigan's wealthiest and poorest residents pay for auto insurance. Only in doing so can Michigan end a cycle of poverty that puts Michiganders and our state, as a whole, at a competitive disadvantage.

27 Oosting, J. (2018, June 13). El-Sayed: To cut auto insurance rates, end 'exploitation'. Retrieved from <http://www.detroitnews.com/story/news/local/michigan/2018/06/13/elsayed-auto-insurance-reforms/697353002/>; Reindl, J. (2018, August 24). Detroit mayor sues Michigan over high no-fault auto insurance rates. Retrieved from <https://www.freep.com/story/money/2018/08/23/no-fault-auto-insurance-lawsuit-mike-duggan/1071905002/>

28 Some States Take Aim at 'Discriminatory' Auto Insurance Pricing. (n.d.). Retrieved from <http://www.pewtrusts.org/en/research-and-analysis/blogs/state-line/2015/08/28/some-states-take-aim-at-discriminatory-auto-insurance-pricing>; Feltner, T., & Heller, D. (2015). High Price of Mandatory Auto Insurance in Predominantly... Retrieved from https://consumerfed.org/wp-content/uploads/2015/11/151118_insuranceinpredominantlyafricanamericancommunities_CFA.pdf

29 California also requires "best price" guarantees for good drivers, has a state-run low-cost plan for safe low-income drivers, and requires insurance companies to provide documentation of their methods.

30 Bjorhus, J. (2016, June 28). If you're poor, you'll pay more for car insurance, study finds. Retrieved from <http://www.startribune.com/report-low-income-drivers-pay-59-percent-more-for-car-insurance/384565011/>